

backgrounder

Programs in Review Focusing on operational excellence

The Bonneville Power Administration is committed to involving customers, stakeholders and the electric ratepayers of the Pacific Northwest in its decision-making processes. Programs in Review (PIR) is one of the extensive public processes BPA hosts to keep the Pacific Northwest informed and to solicit input.

PIR is the region's opportunity to provide input into and help shape BPA's transmission program levels for maintaining and operating the federal transmission system. BPA is planning to conduct a Transmission Rate Case for fiscal years 2008-2009 beginning this summer. Results from the PIR process will serve as the basis for BPA's financial planning efforts and will be used by the BPA administrator to determine transmission capital and expense levels. These planned spending levels, which will not be discussed or reviewed in the rate case, will be reflected in BPA's fiscal year 2008-2009 transmission rate proposal.

How does PIR work?

Starting in late May and continuing into June, BPA will hold five public meetings throughout the Northwest (see schedule at end) where BPA staff will present an overview of transmission programs and will seek feedback on proposed actions and spending levels. As part of this



effort, BPA also will share its strategic vision for planned future direction in transmission. This also is an opportunity to review BPA's accomplishments during the current rate period, the particular challenges the organization faces and its plan for successfully managing those challenges through fiscal years 2008 and 2009.

As BPA shapes its programs and sets its planned spending levels, it will be driven by its strategic vision, which encompasses four pillars.

- High system reliability short- and long-term through effective management;
- Low rates consistent with sound business principles that are predictable and have low volatility;
- Responsible environmental stewardship; and
- Accountability to the region through increased transparency and collaborative partnerships.

What will PIR look at?

Program spending levels are essentially broken out into two categories: capital and expense.

Capital programs are generally those planned investments that provide long-term value and are generally recovered in rates over time. These include infrastructure projects, replacement programs and information technology systems development.



Expense programs are paid within the year the costs are incurred. They include everything else such as system operations, scheduling, maintenance, marketing and sales, ancillary services, business support and systems development, as well as general and administrative services. Expense programs reviewed during PIR do not include interest and depreciation costs associated with the capital program. These items will be addressed during the rate case.

Operational excellence

BPA wants to deliver the greatest value to the region, and it can only do so by operating with maximum efficiency and highly effective cost management. For this reason, operational excellence is a top priority for BPA. BPA will work toward operational excellence through the following methods.

- Using asset management models to make the right investment and operational decisions to maintain reliability and cost-effective, efficient use of transmission assets.
- Continuing cost control with emphasis on efficiency and priorities for a united BPA.
- Continuing efforts to facilitate renewable energy in the region.
- Addressing the need to manage congestion on the transmission system.
- Responding appropriately to increased regulatory pressures and policies.
- Replacing aging system equipment such as spacer dampers.

As BPA pursues operational excellence, it must balance its public responsibilities. For example, a great deal of maintenance work was deferred during extensive cost-cutting efforts in 2005 to respond to much lower than forecast revenues. Keeping corridors clear of vegetation, replacing rotted wooden poles and maintaining access to the lines require system investments that are vital to keeping the system safe and reliable.

At the same time, BPA must uphold its public responsi-

bilities by, among other things, continuing to support an increased interest in renewable energy. In collaboration with customers, the agency also is actively pursuing practical solutions to achieve effective congestion management while complying with continually increasing regulatory pressures and policies.

Recent accomplishments

As participants engage in PIR, they will see a variety of Transmission programs. The following highlights illustrate the diversity of these programs and what BPA has accomplished in the recent past and hopes to continue.

BPA is committed to supporting development of renewable resources throughout the Pacific Northwest. Transmission provides interconnection and transmission to wind projects that provide "green power," or environmental friendly power, around the region. In 2005, BPA doubled the amount of wind generation that is now integrated into the grid by nearly 500 megawatts. By the end of 2006, the number of wind megawatts integrated into the system is expected to double again.

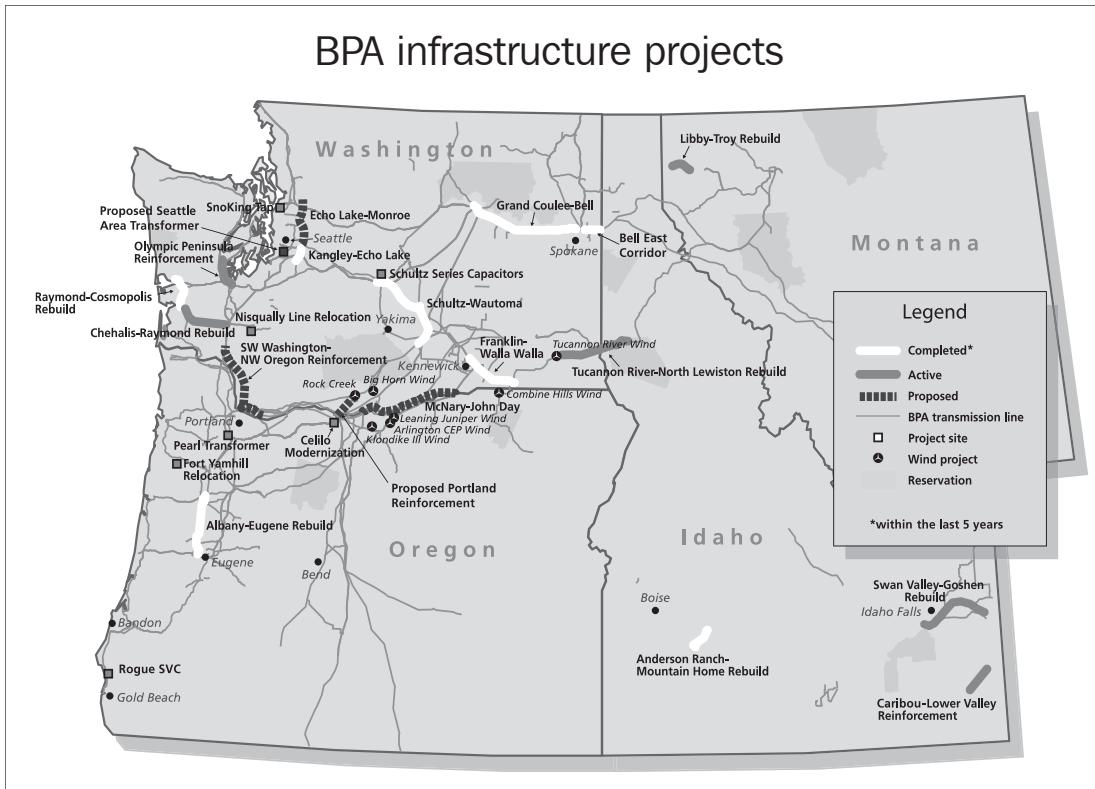
In December 2005, BPA energized the new 63-mile, 500-kilovolt Schultz-Wautoma transmission line linking the Schultz Substation to the new Wautoma Substation. The agency also added 65 miles of fiber optic cable from Columbia Substation to Wautoma Substation. The existing Hanford-John Day and Hanford-Ostrander 500-kV lines were looped into the new Wautoma Substation. The project was completed one month early and under budget.

Through an aggressive vegetation management program, BPA continues to maintain system reliability by removing tall and rampant vegetation and establishing low-growing plantings in areas that pose a hazard to transmission lines.

Transmission also has set a target to have a comprehensive congestion management strategy by this September. It has developed two curtailment calculators that will help relieve some congestion this summer and is engag-

ing customers and other regional parties in development of permanent solutions.

BPA Transmission also has implemented a number of automated processes for handling commercial business, including e-tagging.



Cost management

BPA continues to aggressively manage its costs. Expected transmission revenues for FY 2005 decreased by \$111 million from the fiscal year 2004 rate case projection. BPA helped offset this drop by capturing a net of over \$38 million (rounded) in cost savings through a number of actions such as reducing its maintenance costs, achieving reductions in corporate overhead and lowering ancillary service payments. BPA Transmission also reduced overall interest and depreciation by \$42 million (rounded) through a reduction in capital spending, borrowing and reserves as well as realizing benefits from the debt optimization program.

As part of an agencywide efficiency initiative, known as the Enterprise Process Improvement Program, Transmis-

sion also is undertaking initiatives to improve its processes and decision-making while reducing costs of doing business. For example, EPIP savings on Plan, Design, Build for the FY 2006-2010 period are projected to be \$129 million. This initiative calls for greater standardization of building. In addition to achieving efficiencies in the supply chain, Plan, Design, Build initiatives also call for doing things in the optimal order, leveling workload with planning and scheduling enhancements, and intensifying use of risk management.

Two other new functional reviews are currently underway: supply chain and operations and maintenance. Recommendations for their future state are due to be ready by this fall. BPA also is moving toward an agencywide asset management structure, and

Transmission is making strides in using asset management models to make efficient and effective use of transmission assets.

In 2004, Transmission made a commitment to reduce 200 full-time equivalent (FTE) staff from its fiscal year 2004 staffing plan baseline of 2,035 FTE by the end of fiscal year 2007. At the end of fiscal year 2005, FTE levels were down to 1,883. By the end of fiscal year 2008, Transmission expects to reduce staffing levels by an additional 34 FTE (above the 200 FTE commitment made in 2004). The staffing level target is 1,720 FTE for fiscal year 2008.

In comparing the fiscal year 2006 Transmission Rate Case expenses to projected averages for fiscal years 2008-2009, it appears costs are going up in some

areas and down in others. Ancillary services is forecasting a 23.4 percent decline in expenses, and a 4.5 percent decline is projected in depreciation. On the other hand, an 11.5 percent increase is forecast in Transmission programs and a 7.8 percent increase in interest expense. Interest and depreciation will be finalized in the rate case.

We are seeing cost increases as a result of inflation, capital to expense shifts, corporate overhead, fuel costs, inventory adjustments, lease costs, training needs, vegetation compliance, regulatory fees and Control Center support.

Challenges ahead

The overall challenge is to ensure that money invested in the system reflects the best use of limited resources to benefit the region. High priorities for investment include the following:

- Congestion management
- Transmission adequacy
- Infrastructure needs
- Integration of new resources (with emphasis on wind)
- Non-wires solutions
- Industry restructuring (one-utility concept)

Access to capital also continues to be a challenge as BPA's borrowing authority from the U.S. Treasury is limited. Other low-cost capital sources are being used and/or explored.

There also are additional pressures due to:

- Tightening of capitalization policies that will result in more cost pressures on expenses
- New laws bringing more regulatory requirements
- Delays in non-electric plant maintenance due to budget constraints
- Efforts to manage a constrained system
- A high proportion of workers eligible for retirement combined with nationwide competition for qualified workers
- Right-of-way management

How to become involved

BPA's 2006 Programs in Review invites BPA customers, ratepayers and other stakeholders to participate with BPA in reviewing these challenges and helping determine the program levels that will best propel the agency toward the optimal investments that will deliver the greatest value to the Pacific Northwest.

Public meetings and presentations will begin in May (see below), with possible technical meetings with customers in July. A public comment period on proposed program funding levels will conclude at the end of August. Then, at or around Sept. 30, the BPA administrator will make a decision on final program levels. The initial proposal for the fiscal year 2008-2009 Transmission Rate Case is scheduled for December. BPA has scheduled the following public meetings:

May 25 — 9:30 a.m. to noon Spokane Valley, Wash. Modern Electric 904 N. Pines Rd.	May 31 — 1:30 to 4 p.m. Idaho Falls, Idaho Idaho Falls Power Conference Room 140 S. Capital Ave.
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June 6 — 9:30 a.m. to noon Pasco, Wash. Franklin PUD Auditorium 1411 W. Clark Street	June 21 — 9:30 a.m. to noon Tacoma, Wash. Tacoma Auditorium 3628 S. 35th St
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June 22 — 9:30 a.m. to noon Portland, Ore BPA Rates Hearing Room 911 N.E. 11th Ave.

For more information

All information and schedules will be posted to the Transmission Web site:

[Http://transmission.bpa.gov/business/Customer%5FForum%5Fand%5FFeedback/Programs_in_Review/pir2006.cfm](http://transmission.bpa.gov/business/Customer%5FForum%5Fand%5FFeedback/Programs_in_Review/pir2006.cfm)

Comments or questions can also be directed to 1-800-622-4519 or to *comment@bpa.gov*.